

Prepared Opening Statement of Ranking Member Spencer Bachus, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises Hearing Entitled, "Examining Proposals on Insurance Regulatory Reform"

April 16, 2008

Mr. Chairman, since the creation of the Financial Services Committee in 2001, this Subcommittee has held well over a dozen hearings and roundtables on the need for insurance reform legislation. At each of these hearings the vast majority of witnesses testified strongly about the need for modernizing our regulatory system.

The Government Accountability Office has issued two reports recommending modernization of our regulatory structure. In its October 2007 report, GAO stated that "The development of large, complex, internationally active firms whose product offerings span the jurisdiction of several agencies creates the potential for inconsistent regulatory treatment of similar products, gaps in consumer and investor protection, or duplication among regulators." Interestingly, this critique was directed not only at insurance regulation, but also federal regulation of banking and securities.

The issue is not, as some might suggest, an issue of inadequate or excessive regulation. Rather, it is the failure of Congress and the regulators to keep up with the rapid evolution of the financial services marketplace.

The Financial Services Committee was created at the turn of the millennium, after the enactment of Gramm-Leach-Bliley, partly in recognition of the convergence of the financial services sectors, but also as an impetus to overcome past turf battles hindering financial modernization efforts. No one has testified that our current regulatory system is optimal, or that it would be recreated in anything resembling its current form if Congress were to redesign it from the ground up. In fact, our European partners are leap-frogging ahead of us, by adopting multiple levels of reform, including home state deference within the EU, some EU-wide uniform rules, and limited consolidated centralization.

Reform of our system is critical, not only for some marginal industry efficiency that could lower costs somewhat for consumers, but more importantly to address the current patchwork quilt of regulations that smothers innovation and competition in some areas while leaving dangerous gaps in others.

According to a 2004 GAO report, the reliance on our current system of functional regulators results in "no one agency or mechanism [that] looks at risks that cross markets or industry segments or at the system and its risks as a whole." Reuters reported last week that the current bond insurance/subprime crisis is likely to cause global losses of over \$1 trillion. Irresponsible actions by State and some federally supervised mortgage lenders and brokers triggered massive problems in the poorly regulated bond insurance market. These in turn led to a complete collapse of portions of the bond markets, a sharp reduction in liquidity across virtually all asset classes, and ultimately a tightening noose of credit constriction around the American consumer leading to further mortgage foreclosures.

There is lots of blame to go around, but no one regulator was in a good position to understand the systemic risk implications of this latest crisis. Certainly Congress should have paid more attention to warning flags by the GAO and others over the last several years. What is everybody's responsibility is effectively no one's responsibility. This is our most pressing need for reform.

With respect to improvements to the current system of functional regulation, in addition to the several thoughtful proposals before us today, I would note that the GAO has completed over 39 studies since this Committee was created recommending specific insurance reforms. At my request, GAO is now reviewing many of these reports to determine the extent to which the problems identified have been addressed. For over a hundred years Congress has been receiving testimony that reform is around the corner, with great new systems being developed. Yet innovation and globalization in the marketplace continue to significantly outpace parochial reform.

Thank you, Mr. Chairman, for convening today's hearing, and thank you to all of the witnesses for providing insight into this important reform discussion.